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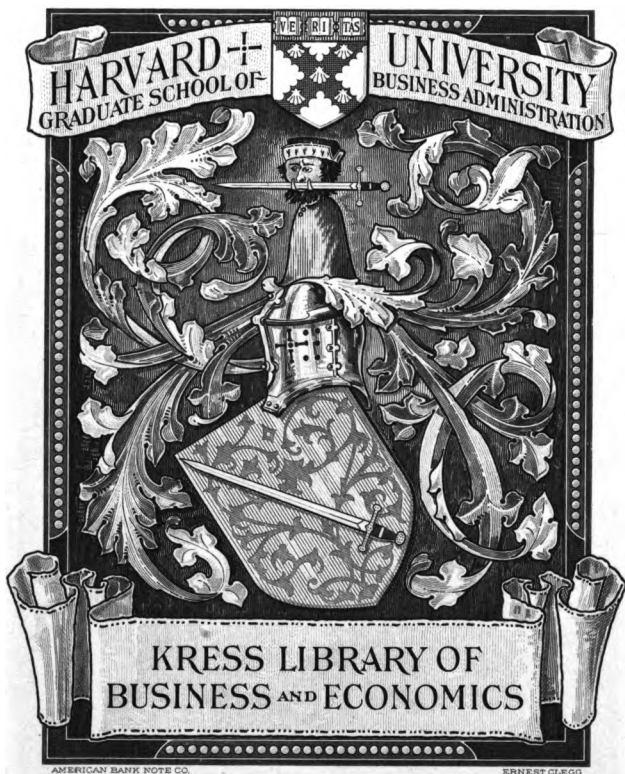
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Gairdner.

An enquiry into some of the
causes of fluctuations in trade.

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Charles Gairdner

An Enquiry into some of the Causes
of Fluctuations in Trade.

A Lecture addressed to the Glasgow Institute
of Accountants & Actuaries.

Glasgow: James Maclehose
David Douglas, Edinburgh; Effingham Wilson, London.
1877. pp. 35.

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AN ENQUIRY INTO SOME OF
THE CAUSES
OF
FLUCTUATIONS IN TRADE.

A LECTURE

ADDRESSED TO

The Glasgow Institute of Accountants and Actuaries.

BY

CHARLES GAIRDNER,

MANAGER OF THE UNION BANK OF SCOTLAND.

PUBLISHED BY THE REQUEST OF THE INSTITUTE.

GLASGOW:

JAMES MACLEHOSE, PUBLISHER TO THE UNIVERSITY

DAVID DOUGLAS, EDINBURGH. EFFINGHAM WILSON, LONDON.

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ONE SHILLING.



With Mr Gairdner's compliments.

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AN ENQUIRY INTO SOME OF THE CAUSES
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FLUCTUATIONS IN TRADE.

GENTLEMEN,—I have had great pleasure in responding to the invitation of your council to address you here this evening. I do not know that I shall have anything to present that is new to you, but I shall at least be able to show my sympathy with the movement that has led to the series of lectures of which this is the first; and I come forward with all the more readiness because I have the liveliest sense of the great advantage I have enjoyed throughout my business career from the training and experience gained during my earlier years in the honourable profession to which you are devoted.

In seeking for a subject on which to address you I have desired if possible to find one that would be at once instructive and appropriate. In a trading community such as this it is very desirable that the principles that ultimately regulate and control the actions of individuals should be well understood,

and it is to the professional classes and those who are less involved than their neighbours in the excitement of the Exchange, that one naturally looks in the first place to keep alive the study of commerce as a science, and to extend the knowledge of the principles of trade. I think, therefore, that in presenting to you some views of the causes of fluctuations in trade I shall at least be within the range of subjects that are useful, and the time also seems to be appropriate for this purpose, seeing that at the moment we are uninfluenced by any abnormal excitement. There are times when the very atmosphere seems charged with a speculative element, and it is then hardly possible to secure the calm attention that is required. To-night, I am fortunate in having an audience whose ordinary interests and occupations, as well as intellectual leanings, combine in my behalf to bespeak a favourable hearing.

The year that has just closed is the third in succession in which trade has been, to a large extent, unprofitable. In these three years we have seen in many branches of industry a heavy reduction in wages. Raw materials and manufactured goods have fallen in value. The great carrying trades of the world have been unremunerative. Freights have fallen, bringing down with them the value of shipping property and the profits of shipbuilders. Nor have railway traffics, in spite of their monopoly, increased as they were wont to do.

In Scotland our experience has been rather less unfavourable than elsewhere, and we have tided over the time with comparatively little inconvenience. Still we have been unmistakably conscious that the times have been bad; while in England great concerns in the iron districts have collapsed, extensive mercantile houses have suspended, and industrial companies engaged in the manufactures of Yorkshire and Lancashire have gone into liquidation.

In the United States the pressure has been especially felt. In September, 1873, there arose a panic in the Stock Exchange of New York which spread throughout the country, and from that time till now the people have had to endure the miseries of "Hard times." Every kind of industry has been affected.* Coal and iron works have been closed. Mills are partially at a stand. The works of new railways have been stopped, and the affairs of some of the old companies are in confusion. Vast numbers of unemployed parade the streets of the great cities, and bread riots have not been unknown. Even the tide of emigration has threatened to turn.

On the continent of Europe misfortunes similar in kind, though less in degree, have overtaken the people; and, strange though at first sight it may appear, Germany, with its two hundred millions of French gold, has been the greatest sufferer. To our own most distant colonies the pressure has extended,

* See *Economist* of 30th December, 1876, page 1510.

and a heavy fall in the value of wool for a time brought trouble on the squatter.

Why is this so? How is it that trade has simultaneously and universally shrunk in extent? This is the question that I propose to examine to-night, and I must ask your patience while I do so, for although the enquiry ought to be interesting and instructive, I cannot promise to make it amusing.

The question has but little in common with the ordinary causes of individual failures. These occur to a large extent from inexperience, imprudence, from the haste to be rich, from personal extravagance, from want of moral courage to face the beginnings of misfortunes, and sometimes from downright dishonesty. "To err is human," and as long as it is so, our mercantile annals will be chequered with individual disasters. But these effects are local and personal, and do not serve to account for the great wave of depression we have lately experienced.

Neither do we find the explanation in any great natural cause. The extensive failure of the harvests of the world would be a phenomenon of the most formidable kind, certain to shake to its foundations the machinery of trade. But nothing of the kind has happened. Seed time and harvest have followed one another as heretofore; and the earth having yielded her fruits, we find no answer in that direction.

But, it will be said, the whole question is one of

Supply and Demand. The demand for commodities is always uncertain; it has for the present fallen off; when it revives trade will improve again. This answer satisfies the superficial observer, and he is content to inquire no further. But is it true? *Does* demand, in point of fact, regulate supply? I apprehend not. The ragged beggar in the street has a demand, and a very urgent one too, for food and clothing; but he finds that it has but little effect on the question of supply. Let him have a shilling in his pocket and the case is altered. Then we see that demand, to be effective, must be supported by capital,—and all that demand does is to guide the capital into a particular channel.

These thoughts do not, however, appear to take us far in the study of our question, and it will be necessary to approach the subject in a different way. This I shall do by setting out two or three general propositions which it is important you should understand and whose application to our subject you will see by-and-bye. They are familiar enough to those who have made a study of political economy, but may not be so to all of you. It would be well if they were more generally kept in view in practical life.

As the principles I am about to lay down may be found by some of you a little abstruse, it may assist you in following them if I state in advance that the particular causes of fluctuations in trade, the nature of whose action I intend to examine, are, 1st, War;

2nd, Loans to insolvent and improvident states ;
 3rd, The too rapid conversion of circulating into fixed capital. I shall also have some observations to make upon strikes.

In order, then, to your understanding the kind of influence exercised by these disturbing forces on trade generally, and in particular on wages, which naturally form a prominent point in our question, I have, in the first place, to remind you that all wages come from capital. If there were no capital, that is to say, if there were no savings from past labour, there would be no wages, for there would be nothing with which to remunerate labour. Destroy the capital and you destroy the wage-fund. Increase the capital and you increase the fund available for wages.

There are thus two complementary forces—labour in search of capital, and capital in search of labour (or, as it is sometimes put, of population), and each essential to the other. On the ratio between them ultimately depends the remuneration of labour. If there be a preponderance of capital seeking employment, labour is better paid. If a preponderance of labour seeking employment, labour is worse paid. You thus see that the labourer has a direct interest in the increase of capital, for, other things remaining the same, the increase of capital leads to the increase of wages.

How, then, is capital to be increased? There are two constituent elements in capital—labour and

natural objects--and, assuming the existence of the latter, capital is produced by labour and thrift. All men who labour and consume less than they produce increase capital by the amount of their savings. Let this be clearly understood, for there is no other way, no royal road, by which capital can be increased.

Again, if instead of being occupied with work and thrift, men indulge in idleness and waste, capital is diminished, for capital is then consumed without being reproduced, and then, there being less capital left to seek for employment, wages fall.

Allow me to illustrate this by a particular case. A farmer lays out his capital in the cultivation of his land, and in the following year it is returned to him with an increase or profit, which rewards him for his own personal labour and his risk. His capital passes out of his hands nominally in coin, really in food and clothing for his men, and seed and manure for his land. These things are consumed, and in their place he receives the fruits of the earth, which are more than the equivalent of his outlay. Suppose that the farmer and his men, instead of labouring in the cultivation of the land, spend their time in idleness, the consequence will be that the portion of capital consumed by them passes out of existence, there is nothing reproduced, and the wage-fund is correspondingly diminished. Moreover, this result will be equally arrived at if, instead of indulging

in idleness, they direct their labour to purposes that are unproductive and useless. Suppose, for instance, that they set themselves to dig a deep but purposeless pit, or to build a high but useless wall, the effect will be the same. The labour will have been applied to purposes that are not reproductive, and the capital with which they began will have vanished.

I do not mean to assert that all labour that is not applied to purposes directly reproductive is misapplied, or that the capital so consumed is lost. "Man cannot live by bread alone," and there are many occupations,—all kinds of professions, for example,—which, though not directly productive, are indirectly so, and are, indeed, essential to the life and happiness of man. The proposition must be understood not in the narrow sense of reproducing material things, but in the wider sense of maintaining and increasing all that belongs to the wealth or well-being of mankind. In this sense it is undoubtedly true as a general proposition, and I must now show how it is found to operate in practice.

I have said that labour is in search of capital, and that capital is in search of labour. I must now explain that capital is of two kinds, fixed and circulating, the laws relating to which are very different. Circulating capital includes raw materials, food, goods manufactured or in process

of manufacture, and the like.* It has been described as capital which fulfils the whole of its office, in the production in which it is engaged, by a single use. It does its work, not by being kept, but by changing hands. Fixed capital, on the other hand, is capital whose efficacy is not exhausted by a single use, such as buildings, machinery, implements, permanent improvements of land, docks, railways, mines, etc.

It is unnecessary for me to detain you with any more elaborate definition of the difference between the two. In a general way the distinction must be sufficiently familiar to you, and the point to which I desire now to draw your particular attention, for upon it will turn much of what has afterwards to be said, is that the remuneration of labour comes entirely from circulating capital. A little consideration will satisfy you that fixed capital, from its very nature, cannot be made available for the remuneration of labour, and as circulating capital is the only other form of capital, it follows that it is from circulating capital alone that all wages are defrayed. In form, of course, wages are chiefly paid in coin, but, in fact, they are paid in commodities, which the coin enables the labourer to purchase, and which he, in part at least, consumes. When, therefore, we speak of labour and capital as two complementary forces, the ratio between which

* For a fuller exposition of the difference between fixed and circulating capital, see Mill's *Political Economy*, bk. I., chap. VI.

must ultimately regulate the remuneration of the labourer—it must be remembered that circulating capital alone is meant, and that fixed capital is apart from the question.

I must further explain that this ratio is not arrived at by a self-acting principle. It is not the arithmetical proportion between the circulating capital of a country and the number of its labouring population that regulates the wages. This arithmetical relation no doubt represents the extreme limits within which the two forces must act; but, speaking of labour *in the mass*, and of capital *in the mass*, the ratio which regulates the rate of wages is that which exists between the amount of circulating capital and of labour which, at the particular moment, *may be drawn to seek employment*. Behind these there is latent, and ready to come into operation at the will of individuals, a varying amount of labour, *not seeking employment*, and a varying amount of circulating capital, such as stocks in trade, and the like, *not seeking employment*,—all points in the case requiring to be taken into account.

I am sorry to trouble you with these abstract principles, but I have now done with them; and as a clear understanding of their meaning is essential to the argument, I will now very shortly recapitulate what it is important for you to remember.

1st. The remuneration of labour comes from circulating capital, and the maximum amount of remuneration, therefore, available for labour in the

mass is limited to the amount of circulating capital.

2nd. The actual remuneration of labour at any particular time depends on the ratio between the amount of labour and of circulating capital which at that time may be drawn to seek employment.

3rd. Labour is either productive or unproductive. If productive, the circulating capital consumed is replaced, perhaps increased, or in lieu of it fixed capital is created, in which latter case the circulating capital is diminished.

If it be unproductive, the circulating capital is diminished by the amount consumed by the labourers.

With these propositions before us, let us now review some of the great movements that have been in operation in recent years, affecting labour and capital, and, first, let us look at that most unproductive of all kinds of labour—war.

Those of you whose memories carry back for thirty years, may remember that at that time it was sometimes said that the time of war was over. A generation had lived without having seen any great war, and so it was hoped that the nations of Europe had become too civilized to settle their disputes in that barbarous fashion. Alas, for the short-sightedness of men! The year 1848 showed that the populations were only held down by repression, and when they stirred themselves every throne in Continental Europe was in danger.

It was not, however, till 1854, when the Crimean war broke out, that the second fighting era of the 19th century began. From that time onward, for seventeen years, war on the largest scale of magnitude has been the rule, and peace the exception. To remind you of this, it is unnecessary to do more than note the general facts.

The war with Russia, entered into by Great Britain, in combination with France and Italy, lasted two years—viz., till March, 1856. It was followed, in May, 1857, by the Indian mutiny, which was not completely suppressed till December, 1858. Since that date this country has not been directly engaged in any great war, but it by no means follows on that account that we have escaped the perturbations occasioned by the conflicts of our neighbours.

In 1859 came the great contest between Italy, in alliance with France and Austria, which freed north Italy, and prepared the way for uniting the Peninsula under one king.

In January, 1861, broke out the great civil strife in the United States of America, which lasted till April, 1865. Nothing to be compared with it has been known in modern times, and it left the Republic loaded with a debt of more than five hundred million pounds sterling, and a large portion of the country utterly prostrate.

In 1864 a collision of minor importance had taken place between Prussia and Denmark, followed in

1866 by the great conflict between north and south Germany, which led to the consolidation of the German empire.

Finally, in 1870, was witnessed the overthrow of France by the Germans. This war was at once one of the shortest and costliest of all the great wars of history. Within six weeks of its outbreak, the French Emperor surrendered with his army at Sedan; within six months the victorious Germans were encamped within the walls of Paris. The cost to France of this brief but disastrous struggle has been estimated by a very competent authority at no less a sum than seven hundred million pounds sterling. It is worth while to note one or two of the leading features of this estimate.*

The direct losses defrayed by war credits of the Government were	£120,000,000
The fines and requisitions levied on occupied districts were	- 44,000,000
The capital value of war pensions,	5,000,000
<hr/>	
Total direct expenses,	£169,000,000

* For the estimates here given, and for those relating to the German outlays, *infra*, p. 25. I am indebted to my friend, Mr. Robert Giffen, chief of the Statistical department of the Board of Trade, who, in 1872, made a very careful and exhaustive examination into the financial effects of the Franco-German war.

Appended to the second French edition of Mr. Goschen's volume on foreign exchanges will be found M. Léon Say's report on the payment of the indemnity, and on the exchange operations occasioned by it—a very remarkable document.

Brought forward, . . . £169,000,000

The indirect cost consists of—

Estimated loss of income by suspension of trade, and ab- straction of labourers from em- ployment, - - - -	£150,000,000
Estimated loss of permanent business, - - - -	112,000,000
	<hr/>
Total estimate of indirect losses,	262,000,000
Indemnity, - - - -	200,000,000
Alsace and Lorraine based on 20 years' purchase of revenue,	64,000,000
	<hr/>
Grand total,	£695,000,000

Now, what is the bearing of war on this enormous scale on the question we have on hand? What is its effect on prices, or on the rate of wages?

I answer,

1st. The first effect of the outbreak of war is to create an urgent demand for all kinds of commodities needed, directly or indirectly, for its support. The prices of these commodities consequently rise, and the reserve stock, or unemployed circulating capital, is gradually encroached upon. This, again, having to be replenished, causes a rise in wages, and the rise is aggravated by the withdrawal from industrial pursuits, for fighting purposes, of an important proportion of the labourers.

2nd. This state of matters continues for a longer or shorter time, according to the amount of circulating capital at the command of the country concerned.

If the country be without credit abroad (and this view of the question is very important at this moment in view of possible hostilities between Russia and Turkey), its resources are limited to those within itself. If it enjoys credit with its neighbours, the circulating capital of these neighbours may be made available to the extent to which they may interest themselves in loans to the country at war.

3rd. If the war is not concluded through other influences, the time inevitably comes when production can no longer keep pace with consumption, and the war ends through the exhaustion of the circulating capital required for its support. The fixed capital of the country is of no avail to carry on the war.

4th. The return of peace is accompanied by suffering and distress, and men ignorantly wonder why it should be so. The land remains as before, also the buildings, machinery, mines, railways, and all that pertains to fixed capital. The labour, too, is there urgently seeking for employment. What is lacking is circulating capital, from which alone labour can be remunerated, and without which all else is at a standstill.

5th. The process of recuperation, as I set out by indicating, is to be found in labour and thrift : labour, that is to say, at such scale of remuneration as the remnant of circulating capital will afford. In countries like the United States of America, where the people are surrounded by natural agents of great

richness, the recovery is astonishingly rapid. In a country such as France, where similar natural advantages are combined with the utmost thriftiness throughout the industrial classes, the rapidity of recuperation is still more amazing.

A great war thus gives while it lasts a false appearance of prosperity. The nation lives to a great extent upon its capital, and exhibits on a larger scale the delusive prosperity of a spendthrift. It is true that none of the great wars to which I have referred (with the exception, perhaps, of the Russian war of 1854-6, and the Civil War in America) can be said to have terminated through the exhaustion of one of the combatants, for they ended rather, as was conspicuously the case with France in 1870, through the destruction of the military system of one side; yet it is to no small extent to this great disturber of trade that we must attribute the high point reached by prices and wages at various periods during the last twenty-two years, and also the subsequent depressions, from the last of which the world is now slowly recovering.

I must now proceed to consider fluctuations in trade from another point of view. Our own country has in recent years had but little responsibility for the ravages of war, but I fear she will prove to be the chief offender under our second head—Loans to insolvent and improvident states. It is wonderful to read in the chronicles of the Stock Exchange of the

hundreds of millions which in the last twenty years appear to have been lent to Turks and Egyptians, to Spaniards and Peruvians, to the impecunious natives of Honduras, and many more besides, from whom not one farthing of principal or interest is now being received. Yet the amount involved, enormous though it is, is the least curious part of the story, and I am sure your Council could not provide better entertainment for you on another evening than by prevailing on an intelligent member of the Stock Exchange to describe to you fully and honestly the inner history of some of these operations. I offer the suggestion as some atonement for the dreary half-hour you are suffering at my hands to-night.

Do not, however, suppose that these insolvent nations actually received the enormous sums that figure against them. The case is bad enough, but not so bad as the lists of the Stock Exchange would make it appear. The Turks stand for one hundred and fifty-four millions, the Egyptians for nearly one hundred millions, the Spaniards for more than five hundred millions, the Peruvians for about fifty millions, and so on throughout the rest. Let us take the Turkish debt as an example, and we find that the various prices at which the loans were issued bring out an average of about one hundred and ten millions, as the sum appearing to have been paid to the Turk. It would, however, be unfair to him to make any such allegation. I had an opportunity the other day

when in London of talking the subject over with one of our most distinguished and trustworthy statisticians, who told me that, after making a very careful examination into the facts, he was satisfied that only the merest fraction of the total amount ever reached the Sultan's exchequer. The great mass of the debt now existing is composed of usurious interest and enormous commissions paid to the Christian lenders, and of course a large portion of what reached Turkey got into the wrong pockets there.

What, then, is the bearing of this state of matters on the course of trade? I think we may say :—

1st. That the holders of Turkish bonds have been living on their own capital. What they received in interest was contributed by themselves in fresh loans, and they have been unwittingly playing the part of the spendthrift. In so far as they are concerned their capital is gone.

2nd. If we enquire what the Turks have to show for the debt, either as a government or as a people, we find but little. No railways of any importance, no mines, no public works or machinery, no improvements in land. The Sultan and his Pashas have enlarged their palaces on the Bosphorus, and have filled them with that most undesirable of all kinds of fixed property—an excess of wives; they have a stronger force of ironclads, better ordnance, better barracks for their troops, and more extensive fortifications, all to cause trouble to more civilized men than themselves; but nothing reproductive, nothing

that will bring in the means of paying the interest on their debt. As a people they are not any better off because of the loans they have had from us. As a nation they are stronger to defend a system of government which in itself is not worth defending, and which cannot in the long run be maintained. That is about all; and thus in so far as the Turk is concerned, it is hardly too much to say, the capital is also gone.

3rd. These large sums were disbursed in various ways, but all went in stimulating for the time the demand for labour. As regards the bondholders, they spent as income what was truly capital, and so employed many hands which, had they known all, they would have dispensed with. As regards the ironclads and ordnance, they were the means of stimulating the demand for labour in the Clyde and other shipbuilding and iron districts; while the outlay in Turkey on fortifications and palaces circulated much unexpected money there, whereby the British calico printer and others experienced an appreciable but momentary advantage. All this trade is now at an end. The British capitalist has buttoned up his half-emptied pockets and has resolved that, for the present at least, he will lend no more.

It is unnecessary to trace the story of the other insolvent nations, our object to-night being not to accumulate statistics but to seize hold of principles. The sum and substance of the matter is in this, that in making these loans to insolvent nations, we,

with the aid of our foreign friends, have consumed a large portion of our circulating capital, and have little now to show for it. Had it been applied reproductively, the fund available for wages would have been maintained or increased, and the labourers, who are not less numerous than they were, would have been better off. They must now be content with smaller pay, but the good times will assuredly return again, provided we have recourse to the one infallible specific—steady labour and persistent thrift.

I have already endeavoured to point out to you that there is an important difference between fixed and circulating capital. I wish now to show you, as shortly as I can, how it is that the too rapid increase of fixed capital may seriously interfere with the general prosperity. A very signal example of this was witnessed in this country in 1847, when the first great railway mania reached its height.

In 1844 the country had begun to see the advantage accruing from railways, and in that and the following year, a wild speculative movement arose for their rapid formation. The object of the individuals engaged in it was solely to secure the profit which they believed to be certain and immediate. They had no thought of adapting the ends to the means, or even of counting the cost.

At the end of 1844 we had in use in Great Britain 2,069 miles of railway, which had been

constructed during twelve years at a cost of £64,000,000, or at the average rate of £5,000,000 per annum. In the year 1845, there were authorized and under construction 3,543 miles additional, representing £74,000,000, being a larger sum than we had been able to spend in the preceding twelve years. In 1846, Parliament sanctioned railways to the further amount of £110,000,000,—and then came the collapse.

But England did not proceed alone in this haste to make railways. In France, Germany, and America, the same scale of outlay was in progress. I need not trouble you with the figures; the result was a tremendous reaction, accompanied by a monetary panic, and the suspension of the Bank Act.*

All this had been foreseen, almost to the letter, by intelligent observers; and our countryman, the Right Hon. James Wilson, then editor of the *Economist* newspaper, afterwards Finance Minister of India, had foretold in the pages of his journal what the course of events was certainly leading to. His argument, which was undoubtedly sound, was this—

The income of a nation is received in commodities, *i. e.*, circulating capital. Of this by far the greater portion is consumed annually in the maintenance of the people; the surplus or savings alone is available for the increase of fixed capital, and a considerable margin is required upon this, particu-

* 25th October, 1847.

larly with an increasing population. Now, the largest estimate made at that time of the savings of the country was £65,000,000 per annum, and yet we were undertaking to expend on railways alone a vast deal more than the whole amount of our savings. Besides this, the railways represented but a portion of the outlay on fixed capital; for, in connection with them were required greater ironworks, more extended mines, new homes for workmen; and not the least important fact was that, in the great apparent prosperity, no one thought of economy, so that the savings of the nation fell off at the moment when it was most important they should be increased. Mr. Wilson's argument was unanswerable, and it was fully justified by the event.

The same error is constantly recurring whenever profits are unduly great. We see it in our own country, in our own county. We see it in America, not only in connection with railways, but in the building of towns, and of all those kinds of municipal, state, or corporate undertakings to which we are such ready subscribers. The error is not in the conversion of circulating into fixed capital, a process which, within proper limits, is highly beneficial, and leads to the increased reproduction of circulating capital and the improved remuneration of labour; but in the conversion at a rate too rapid, whereby the fund required for the maintenance of the people is for the time unduly encroached on.

The most notable example in recent years of how sharply this offence against economical law is followed by its appropriate penalty has been, in the experience of Germany, since the payment of the indemnity exacted from France. The facts are so important that I must ask you to hear them before we pass from this subject.

The direct expenditure of Germany for war purposes was—

In war credits, - - - -	£60,000,000
Capital value of war pensions, - -	5,000,000
	<hr/> £65,000,000

The indirect expenses through loss of income, suspension of trade, and abstraction of labourers from employment, is estimated by the authority I formerly quoted at -	50,000,000
	<hr/>

In all, - - - -	£115,000,000
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She received from France an indemnity of £200,000,000, besides Alsace and Lorraine, which, as formerly stated, may be taken at £64,000,000. It thus appears that Germany was not only recouped in her outlays, but that she made a financial profit of close upon £150,000,000. Yet it is Germany that is to-day impoverished, while France is comparatively prosperous. This has sorely bewildered the worthy inhabitants of Fatherland; and we find *Klatteradatch*, the German *Punch*, poking fun at

them in a conversation between two imaginary citizens—

1st Citizen. The French are getting too strong! How shall we check their prosperity?

2nd Citizen. Oh! we shall go to war with them, conquer them,—and pay them five milliards!

There is philosophy as well as humour in the joke, for the mischief sprang directly from the sudden accession of £200,000,000 of circulating capital. How was it possible in so short a period usefully to employ so enormous a sum? With Macbeth we may say—

“Who can be wise, amazed; temperate, and furious;
Loyal, and neutral in a moment? No man.”

And if no man, assuredly no nation; for an individual may be advised and controlled by prudent friends, while a nation listens to no advice, the contagion spreads in every direction, till all go wild together.

I have not the means of tracing in any detail the application of the indemnity, but two things certainly issued from its distribution. 1st, The old habits of personal and domestic economy were to a large extent superseded by a general extravagance, whereby great sums were consumed in needless waste. And, 2ndly, there was an increase of fixed capital quite disproportionate to the normal resources of the nation. On railways alone the outlay

which in 1869 stood at £132,000,000, had in 1874 increased to £307,000,000, or £175,000,000 in five years ; and it is well known that in public works, in the erection of handsome dwelling-houses for the rich, and the general extension of the great town and cities, the outlays have been on a scale quite unprecedented. When the accidental income drawn from the French was exhausted, the nation found its affairs "off the balance,"—a great extension of fixed property, no proportionate supply of circulating capital, old habits of work and thrift to a large extent unlearned.

This is a very rough and inadequate reference to the financial troubles that Germany brought on herself through her successful war ; but I think, so far as it goes, it helps to prove the soundness of Mr. Wilson's theory that, as a general rule, a nation cannot spare for the increase of its fixed capital more than its surplus income.* The practical application of the theory is of course in the hands of an immense number of individuals who act without plan and without concert ; and it is, therefore, an influence on trading operations whose action is necessarily uncertain, and requires all the more to be carefully watched.

* This principle may be usefully pondered by some of our mine-owners, mill-owners, shipbuilders, and others, who are tempted in good times to extend too widely their investments in fixed capital, and to dash prematurely into the palatial style of living so characteristic of the age.

In any paper professing to examine the causes of fluctuations in trade, it is impossible to avoid referring to the subject of strikes. But the influence they exercise is so great, and the questions they raise are so complicated, that their discussion would afford occupation for more than one evening; and I can, therefore, at the close of my address, do little more than refer in a general way to the kind of disturbances they produce, and to some of the misapprehensions that prevail as to what can and what cannot be accomplished by their means.

The first effect of a strike is usually to raise the price of the article which the strikers produce. This is a benefit, of course, to those who hold stocks of the article, and to those who, outside the range of the strike, are engaged in its production. The increased profits they thus enjoy have the secondary effect of attracting fresh capital into the trade, a large portion of which takes the form of fixed capital. New labourers, also, are attracted to join those outside the strike, and so secure a share of the increased profits in increased wages. If the strike be of long continuance, its effects are by so much the greater, and when it comes to an end, and work is resumed, it is found that not only has capital been reduced by the amount consumed by the strikers, but in the trade affected the power of production has been greatly increased, without any corresponding increase in the demand. Prices then

fall, and wages fall with them. This is the natural result of a prolonged strike, assuming that neither party prevails, and that work is resumed on the original terms.

But the loss is not confined to those directly concerned. In proportion as the article produced is in general use or consumption, the unfortunate effects of the strike extend themselves throughout other industries. All the body suffers through the suffering of one important member. Even this is not all, for in the great centres of trade, as in all great centres of population, there is a class who are the enemies of society; and it is when through strikes or other exceptional causes stocks have been run down to a dangerous point that they appear upon the scene. Such, for example, are they to whom "cornering" is a profession. The term belongs, I believe, to the American rather than to the English language; but the practice, unhappily, is not altogether unknown among ourselves. It is true that the operations of the "cornerers" have no more relation to honest industry than have the quotations at Tattersalls to the returns of the Board of Trade; but yet, being reckless of consequences, and highly skilled in the tricks of the gambler, those persons, by acquiring a control over the diminished stocks, can so manipulate the market price as to throw the trade of a whole district into the utmost confusion. Thus you may see how *consequential* disturbances

sometimes arise which greatly aggravate the original mischief.

But, it will be said, "It is unfair to assume that the parties involved in the strike leave off as they began. It may well happen that the strikers gain their point. Then, surely, the result is not purely mischievous, for they justify their action by securing an increase in their pay?" No doubt they may appear to do so, but in that event one of two things must have happened. Either the advantage gained by the strikers has been at the expense of other labourers not in the strike, or at the expense of the capitalist. As regards the first, it is easy to imagine circumstances which would enable one class of labourers to gain an advantage over another class,—the carpenters over the masons, or the painters over the carpenters; but it is most improbable that this, if taken without justifiable cause, would be lasting, and, besides, it is not what the strikers claim to have accomplished. Their war is with the capitalist, and their allegation is that by the strike they have gained an advantage from him which otherwise they should not have had. To this I reply, the advance in wages was in that case at hand, independently of the strikers.

I must endeavour to explain this more particularly. I am now speaking of a question as between capital and labour—*i.e.*, as between capital *in the*

mass and of labour *in the mass*, and I must ask you to put aside altogether the idea of money, which is but an intermediary, and only serves to complicate and obscure the real question. What the labourer wants is not money, but money's worth—*i. e.*, commodities, or, as I have called it, circulating capital. What the capitalist gives for the labour is this circulating capital, and the question is, how much of the one is to be given in exchange for the other.

Now, just as the labourer is under necessity to offer his labour, so is the capitalist under necessity to offer his capital. Whatever may be the form of this capital, there is no other destination for it but the employment of labour, and it must be so employed within a limited time or it will perish. All the circulating capital now in existence, with trifling exception, has been created within a couple of years, —most of it within one year,—and all must be consumed within a similar short period. The capitalist himself cannot consume more than the merest fragment of it. If he applies it for his own comfort or luxury he must employ labour. For a time he may withhold it from the market, but this is to his own loss, and yet it is in his power temporarily to withhold the capital, and so punish himself and the labourer together, that is the measure of his control.

It is, then, clear that the capitalist's power is reduced to a question of time, and the definition

with which I set out is made good, that the rate of wages, at any particular time, depends on the ratio between the circulating capital and the labour which at that time may be drawn to seek employment. If left alone the ratio will gradually adjust itself. If the movement upwards be too long delayed, the movement downward will also be delayed. What the trades-union may usefully do in this matter is to see that the adjustment responds quickly to changing circumstances, but for the union to "regulate the rate of wages" is impossible.

Yet, in the face of this fact, recognized by all sound economists, it is constantly laid down by the leaders of trades-unions that it is through their action that wages are higher now than in former times. Even the monstrous doctrine has been promulgated to our miners and others, that it is by restricting production that wages are to be maintained or increased, and thus ignorant men are led astray by the merest delusions. Union is indeed strength, but strength is a power for good or evil according as it is used. Looking back on the last half dozen years, is there no lesson of wisdom to be learned? How much better would the miners now have been, if, instead of "restrict production," the cry had been "make hay while the sun shines." They now at least may see that it does not always shine on the miner any more than on the haymaker. Therefore, let the cry of their leaders in the future

be, "make hay while the sun shines, and when the hay is made be sparing in its use."

It cannot be too widely proclaimed that the reason why wages are higher to-day than they were twenty, fifty, one hundred years ago is in this, that the increase of production has outstripped the increase of population. That is the reason, *and the only reason*; and it serves to explain how, not alone the trades that have formed themselves into unions have prospered, but how all useful occupations, even the most defenceless, have shared in the general prosperity.

This increased production has been mainly achieved by the marvellous advances made during the last hundred years in bringing the powers of nature to the aid of manual labour. By the invention of the steam-engine and all the varied forms of ingenious machinery that it sets in motion; by more scientific modes of agriculture; by better and more diffused education, whereby labour has been made more intelligent; by the abolition, in this country at least, of every legislative restraint upon industry—by means of these and like advantages the power of production in this century has gone far ahead of the increase of population. But, should this position unhappily change; should production again get into arrear of population,—whether from the decay of natural agents, or from the folly of the capitalist directing labour to unproductive ends, or

from the labourer ceasing to be industrious,—then will come the stern day of trial.

It is true that the conditions of British industry present some features more favourable to permanence than the world has ever seen before. But, on the other hand, our vast increasing population, finding no longer occupation on the land, is drawn into closely-packed communities in the towns, there to develop new capacities of power and of weakness, of happiness and of suffering, of good and of evil. By means of a minute subdivision of labour the aggregate production has been immensely increased, but this at the cost of rendering the work of each individual purposeless and barren except in combination with the labour of others. Thus has grown up a highly artificial industrial system, whose vital principle is in co-operation ; whose healthy, vigorous action depends on harmony and mutual confidence. If this be recognized, as I doubt not it will come to be, the prosperity of the past may to all appearance be maintained and exceeded in the future. If, unhappily, it be neglected, even though all the other elements of success should abound, the whole fabric may fall into disorder and decay.

How best to establish this enlightened co-operation is the great economical problem of the time. Toward its solution each one of you, by acquiring and diffusing accurate knowledge of the principles that regulate the relations of

capital and labour, may do something: many of you may do much. It is in the hope of enlisting you in this good service that I have ventured to address you; and if, in even a small degree, I have been able to impress you with its importance, we shall not have spent an altogether unprofitable evening.

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